

CITY OF LONE OAK, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2014

CITY OF LONE OAK, TEXAS
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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Lone Oak, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Lone Oak, Texas, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

Local law enforcement agencies are currently investigating the possibility of misappropriation of funds regarding the City's Municipal Court system. We are unable to determine the magnitude, if any, of any such misappropriation of funds. If material, such misappropriation could result in an understatement of revenues and the related theft loss.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Lone Oak, Texas as of June 30, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2014, on our consideration of the City of Lone Oak, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



ACKLER & COMPANY
Certified Public Accountants, PC
Tyler, Texas
December 31, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Lone Oak's financial performance provides an overview of the City's financial activities for the year ended June 30, 2014.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 11. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 4. The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps the reader of the financial statement determine if the city is better or worse off as a result of the year's activities. These statements include *all* assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets - the difference between assets and liabilities - as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's infrastructure, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into three kinds of activities:

- **Governmental activities** - Most of the City's basic services are reported here, including the police, fire, general administrations, streets and parks. Property taxes, sales taxes, franchise fees and fines finance most of these activities.
- **Business-type activities** - The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer systems are reported here.
- **Component units** – As of June 30, 2014, the City has no component units.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reporting the City's Most Significant Funds

Fund Financial Statements

Our analysis of the City's major funds begins on page 6. The fund financial statements begin on page 11 and provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council may establish other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds - governmental and proprietary - use different accounting approaches.

- **Governmental Funds** - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements.
- **Proprietary Funds** - When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise fund is the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

THE CITY AS A WHOLE

For the year ended June 30, 2014, net position changed as follows:

	Governmental Activities	Business- type Activities	Total
Beginning net position	\$ 201,302	\$ 923,802	\$ 1,125,104
Increase/ (Decrease) in net position	75,495	(108,992)	(33,497)
Ending net position	<u>\$ 276,797</u>	<u>\$ 814,810</u>	<u>\$ 1,091,607</u>

This schedule reflects an increase of 38.0 percent for governmental activities and a decrease of 12.0 percent for business-type activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE CITY AS A WHOLE (continued)

A comparison of assets, liabilities and changes in net position is as follows:

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Total Assets	\$ 1,350,544	\$ 1,362,363	\$ (11,819)
Total Liabilities	258,937	237,259	21,678
Net Position	<u>\$ 1,091,607</u>	<u>\$ 1,125,104</u>	<u>\$ (33,497)</u>

The decrease in assets is due to depreciation. The increase in liabilities is due to increased notes and bonds payable.

Governmental Activities

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants. Some of the individual line item revenues reported for each function are:

Miscellaneous:	Various permits, fees for services
Municipal Court:	Fines
Police:	Fines and Donations

All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue even if restricted for a specific purpose.

A comparison of governmental activities revenues and expenses on the Statement of Activities is as follows:

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Revenues	\$ 661,753	\$ 477,222	\$ 184,531
Expenses and Transfers	586,258	432,748	153,510
Change in Net Position	<u>\$ 75,495</u>	<u>\$ 44,474</u>	<u>\$ 31,021</u>

The increase in revenue is due to an increase in municipal court collections. Increased expenses are due mainly to an increase in municipal court expenses and general fund expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities (continued)

A comparison of the whole City revenues and expenses is as follows:

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Total Revenues and Transfers	\$ 1,007,827	\$ 824,649	\$ 183,178
Total Expenses	<u>1,041,324</u>	<u>846,096</u>	<u>\$ 195,228</u>
Change in Net Assets	<u>\$ (33,497)</u>	<u>\$ (21,447)</u>	<u>\$ (12,050)</u>

Business-type Activities

The Business-type activities include the operations of the water and sewer fund. The water and sewer fund generated a loss of \$108,992 in 2014, compared to a loss of \$65,921 in 2013. The general fund transferred funds to the water and sewer fund in the net amount of \$28,718 in 2014 compared to \$25,441 in 2013.

THE CITY'S FUNDS

The City's general fund increased \$79,988 after a transfer to Water & Sewer of \$8,535. Total revenues increased \$190,950 while expenses increased \$191,899.

General Fund Budgetary Highlights

General fund revenues were over the budget by \$103,440 or 19.0%. Expenditures were over the budget by \$56,040 or 10.0%.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the City had \$1,022,830 invested in fixed assets (net of depreciation) including police and fire equipment, building, water lines, sewer lines, and gas lines. The City has not recorded its investments in roads, bridges and parks for years prior to 2004 due to the difficulty in estimating the value of those items.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets (continued)

	Governmental		Business-type	
	Value	Depreciation	Value	Depreciation
Land	\$ 7,010	\$ -	\$ 4,023	\$ -
Building and Improvements	86,364	40,838	-	-
Infrastructures	168,132	160,016	-	-
Vehicles	127,120	91,317	-	-
Equipment	70,740	38,740	-	-
Water and Sewer	-	-	2,294,492	1,404,140
	<u>\$ 459,366</u>	<u>\$ 330,911</u>	<u>\$ 2,298,515</u>	<u>\$ 1,404,140</u>

Governmental fund assets increased \$63,871 and depreciation was \$23,325. Business fund assets increased \$ 0 and depreciation was \$104,745.

Debt

During the year, the Governmental Fund incurred three new notes payable to purchase vehicles and equipment. The current year net debt increase for the Governmental Fund was \$50,092. In the Business type activities, current year net debt reduction was \$28,750.

Economic Factors

The annual budget is developed to provide efficient, effective, and economic uses of the City's resources, as well as a means to accomplish the highest priority objectives. Through the budget, the City Council and administration sets the direction of the City, allocates its resources, and establishes its priorities.

The City annually reviews all of its fees as part of the budget adoption process. Fees for general government as well as user charges are evaluated and, if needed, adjusted to meet the needs of the operations of the systems. The budget is adopted and a tax rate is approved to meet the demands of the budget. For 2014, rates set for fees and taxes are estimated to meet operational demand similar to the current year.

The City's growth in new residences and businesses has slowed with the economic downturn. Projected growth in population, water and wastewater service, and property values is anticipated to remain flat with little or no growth. The City's surrounding area continues to grow resulting in slight increases in sales tax revenue. City staffing and services will be maintained at current levels with reductions in costs achieved through elimination of unnecessary expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Doug Williams, Mayor for the City.

Kathy Voss
City Secretary

CITY OF LONE OAK, TEXAS
STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets:			
Cash, Including Time Deposits	\$ 55,108	\$ 3,622	\$ 58,730
Accounts Receivable (Net of Allowances)	6,391	18,690	25,081
Accounts Receivable - Taxes (Net of Allowances)	17,120	-	17,120
Other Receivables	39,075	22,293	61,368
Total Current Assets	<u>117,694</u>	<u>44,605</u>	<u>162,299</u>
Noncurrent Assets:			
Restricted Cash	165,415	-	165,415
Bond Discounts (Net of Amortization)	-	-	-
Capital Assets, Net of Depreciation	128,455	894,375	1,022,830
Total Noncurrent Assets	<u>293,870</u>	<u>894,375</u>	<u>1,188,245</u>
Total Assets	<u>411,564</u>	<u>938,980</u>	<u>1,350,544</u>
DEFERRED OUTFLOWS OF RESOURCES			
Prepaid Expenses	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES			
Current Liabilities:			
Bonds Payable - Current	-	19,000	19,000
Notes Payable - Current	18,833	-	18,833
Accounts Payable & Accrued Liabilities	68,115	25,170	93,285
Total Current Liabilities	<u>86,948</u>	<u>44,170</u>	<u>131,118</u>
Noncurrent Liabilities:			
Bonds Payable - Non-Current	-	80,000	80,000
Notes Payable - Non-Current	47,819	-	47,819
Total Noncurrent Liabilities	<u>47,819</u>	<u>80,000</u>	<u>127,819</u>
Total Liabilities	<u>134,767</u>	<u>124,170</u>	<u>258,937</u>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	61,803	795,375	857,178
Reserved	-	-	-
Unrestricted	214,994	19,435	234,429
Total Net Position	<u>\$ 276,797</u>	<u>\$ 814,810</u>	<u>\$ 1,091,607</u>

See accompanying notes to financial statements.

CITY OF LONE OAK, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs Activities	Program Revenues				Primary Government			Net (Expenses) Revenue and Changes in Net Position
	Expenses	Charges for Services	Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental Activities:								
General Government	\$ 141,839	\$ 1,786	\$ -	\$ -	\$ (140,053)	\$ -	\$ (140,053)	
Municipal Court	217,572	463,197	-	-	245,625	-	245,625	
Police	189,440	10,559	-	-	(178,881)	-	(178,881)	
Public Works	8,689	-	-	-	(8,689)	-	(8,689)	
	-	-	-	-	-	-	-	
	<u>\$ 557,540</u>	<u>\$ 475,542</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (81,998)</u>	<u>\$ -</u>	<u>\$ (81,998)</u>	
Business-type Activities:								
Water and Sewer	483,784	345,999	-	-	-	(137,785)	(137,785)	
Total Business-type Activities	<u>\$ 483,784</u>	<u>\$ 345,999</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (137,785)</u>	<u>\$ (137,785)</u>	
Total Primary Government	<u>\$ 1,041,324</u>	<u>\$ 821,541</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (81,998)</u>	<u>\$ (137,785)</u>	<u>\$ (219,783)</u>	
General Revenues:								
Property Taxes		\$ 93,238	\$ -	\$ -	\$ 93,238		\$ 93,238	
Sales Taxes		71,650	-	-	71,650		71,650	
Franchise Fees		21,279	-	-	21,279		21,279	
Investment Income		44			44	10	54	
Miscellaneous		-			-	65	65	
Intergovernmental Transfers		-			-	-	-	
		(28,718)			(28,718)	28,718	-	
Total General Revenues and Transfers		<u>\$ 157,493</u>			<u>\$ 157,493</u>	<u>\$ 28,793</u>	<u>\$ 186,286</u>	
Change in Net Position		\$ 75,495			\$ (108,992)		\$ (33,497)	
Net Position- Beginning		201,302			923,802		1,125,104	
Net Position - Ending		<u>\$ 276,797</u>			<u>\$ 814,810</u>		<u>\$ 1,091,607</u>	

See accompanying notes to financial statements.

CITY OF LONE OAK, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014

	<u>General Fund</u>	<u>Other</u>	<u>Total</u>
ASSETS AND OTHER DEBITS			
ASSETS			
Cash and Investments			
Unrestricted	\$ 55,108	\$ -	\$ 55,108
Restricted	123,095	42,320	165,415
Receivables (net of allowance for uncollectible accounts)			
Property Taxes	11,097	6,024	17,121
Sales Tax, Fees, and Services	6,391	-	6,391
Due from Other Funds	39,074	-	39,074
	<u>\$ 234,765</u>	<u>\$ 48,344</u>	<u>\$ 283,109</u>
Total Assets			
LIABILITIES, EQUITY, AND OTHER CREDITS			
LIABILITIES			
Accounts Payable	\$ 899	\$ -	\$ 899
Other Liabilities	44,923	-	44,923
Deferred Revenue	42,921	6,023	48,944
Due to Other Funds	-	22,293	22,293
	<u>\$ 88,743</u>	<u>\$ 28,316</u>	<u>\$ 117,059</u>
Total Liabilities			
EQUITY AND OTHER CREDITS			
Fund Balances			
Assigned	-	20,028	20,028
Unassigned	146,022	-	146,022
	<u>\$ 146,022</u>	<u>\$ 20,028</u>	<u>\$ 166,050</u>
Total Fund Balances			
	<u>\$ 234,765</u>	<u>\$ 48,344</u>	<u>\$ 283,109</u>
Total Liabilities and Fund Balances			

See accompanying notes to financial statements.

CITY OF LONE OAK TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNEMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

Total Fund Balances per Balance Sheet	\$ 166,050
Amounts reported for governmental activities in the statement of activities are different because:	
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	128,455
Revenues recorded as deferred in the funds are recognized as earned in the governmental activities.	48,944
Some long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	<u>(66,652)</u>
Total Net Position	<u><u>\$ 276,797</u></u>

See accompanying notes to financial statements.

CITY OF LONE OAK, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Other Governmental Fund	Total Governmental Funds
Revenues:			
Property Taxes including P & I	\$ 71,159	\$ 23,720	\$ 94,879
Franchise Fees	21,279	-	21,279
Sales Tax Collected	67,522	-	67,522
Charges for Services	1,786	-	1,786
Municipal Court	463,197	-	463,197
Police	10,559	-	10,559
Grant Income	-	-	-
Miscellaneous	74	-	74
Total Revenues	<u>\$ 635,576</u>	<u>\$ 23,720</u>	<u>\$ 659,296</u>
Expenditures:			
General Government	\$ 136,932	\$ -	\$ 136,932
Municipal Court	217,572	-	217,572
Police	247,731	-	247,731
Public Works	8,689	-	8,689
Public Services and Operations	-	-	-
Capital Outlay	-	-	-
Debt Service	-	972	972
Principal Retirement	-	-	-
Total Expenditures	<u>\$ 610,924</u>	<u>\$ 972</u>	<u>\$ 611,896</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 24,652</u>	<u>\$ 22,748</u>	<u>\$ 47,400</u>
Other Revenue and Financing Sources (Uses):			
Loan Proceeds	\$ 63,871	\$ -	\$ 63,871
Operating Transfers In/(Out)	(8,535)	(20,183)	(28,718)
Intergovernmental	-	-	-
Total Other Financing Sources (Uses)	<u>\$ 55,336</u>	<u>\$ (20,183)</u>	<u>\$ 35,153</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>\$ 79,988</u>	<u>\$ 2,565</u>	<u>\$ 82,553</u>
Fund Balance/ July 1	66,034	17,463	83,497
Fund Balance/ June 30	<u><u>\$ 146,022</u></u>	<u><u>\$ 20,028</u></u>	<u><u>\$ 166,050</u></u>

See accompanying notes to financial statements.

CITY OF LONE OAK, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Net change in fund balances - total governmental funds	\$ 82,553
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report expenditures for capital outlays as expenditures.	63,871
However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period	(23,325)

The issuance of long-term debt (e.g. bonds, tax anticipation notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(63,871) 13,779
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Current year additional revenues recorded as deferred in the funds are recognized as earned in the governmental activities.	2,488
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Change in net position of governmental activities - statement of activities	\$ 75,495
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See accompanying notes to financial statements.

**CITY OF LONE OAK, TEXAS
STATEMENT OF NET POSITION
ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Water and Sewer Fund</u>
ASSETS AND OTHER DEBITS	
ASSETS:	
Cash and Investments	
Unrestricted	\$ 3,622
Receivables (net of allowance for uncollectible accounts)	
Fees and Services	18,690
Due From Other Funds	22,293
Property, Plant, and Equipment	
Land	4,023
Machinery and Equipment	87,560
Water and Sewer Systems	2,206,932
Accumulated Depreciation	<u>(1,404,140)</u>
Total Assets	<u><u>\$ 938,980</u></u>
LIABILITIES AND NET POSITION	
LIABILITIES:	
Accounts Payable and Other Liabilities	\$ 25,170
Other Liabilities	-
Long Term Debt	
Bonds Payable	99,000
Notes Payable	-
Total Liabilities	<u><u>\$ 124,170</u></u>
NET POSITION:	
Invested in Capital Assets, Net of Related Debt	\$ 795,375
Reserved	-
Unrestricted	19,435
Total Net Position	<u><u>\$ 814,810</u></u>
Total Liabilities and Net Position	<u><u>\$ 938,980</u></u>

See accompanying notes to financial statements.

CITY OF LONE OAK, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Water and Sewer Fund</u>
OPERATING REVENUES:	
Charges for Services	\$ 345,999
Miscellaneous	65
Total Operating Revenues	<u>\$ 346,064</u>
OPERATING EXPENSES:	
Personnel Services	\$ 94,722
Supplies and Materials	83,874
Water, Lab Fees, and Permits	105,218
Legal and Professional	23,492
Depreciation and Amortization	108,337
Insurance	7,225
Utilities	17,802
Miscellaneous	37,380
Total Operating Expenses	<u>\$ 478,050</u>
Net Income from Operations	\$ (131,986)
OTHER INCOME AND EXPENSE:	
Grant Income	\$ -
Interest Income	10
Interest Expense	<u>(5,734)</u>
NET INCOME	(137,710)
Transfers In	\$ 28,718
Transfers Out	<u>-</u>
Total Increase in Net Position	(108,992)
Net Position July 1	923,802
Net Position, June 30	<u><u>\$ 814,810</u></u>

See accompanying notes to financial statements.

CITY OF LONE OAK, TEXAS
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 356,001
Cash Received from Other Sources	65
Cash Paid to Employees and Suppliers	(370,019)
Net Cash Provided by Operating Activities	<u>\$ (13,953)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Interest Expense	\$ (5,734)
Grants	-
Grant Expense	-
Operating Transfers from Other Governments	28,718
Operating Transfers to Other Governments	-
Net Cash Provided by Non-Capital Financing Activities	<u>\$ 22,984</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition or Construction of Capital Assets	\$ -
Long-term Borrowing	-
Reduction of Bonds Payable and Notes Payable	(28,749)
Net Cash Used for Capital and Related Financing Activities	<u>\$ (28,749)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	<u>10</u>
Net Increase in Cash and Cash Equivalents	\$ (19,708)
Cash and Cash Equivalents - Beginning of Year	23,330
Cash and Cash Equivalents - End of Year	<u><u>\$ 3,622</u></u>

**Reconciliation of Operating Income to
Net Cash Provided by Operating Activities**

Operating Income	\$ (131,986)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation & Amortization	108,337
Change in Assets and Liabilities:	
(Increase)/Decrease in Receivables	10,003
Increase/(Decrease) in Accounts Payable	(307)
Net Cash Provided by Operating Activities	<u><u>\$ (13,953)</u></u>

See accompanying notes to financial statements.

**CITY OF LONE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lone Oak, Texas (City), operates under a Mayor-Council form of government. The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units, and by the Financial Accounting Standards Board (when applicable). The City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the City are described below.

A. FINANCIAL REPORTING ENTITY

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The City holds the corporate powers of the organization
- The City appoints a voting majority of the organization's board
- The City is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the City
- There is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City does not have component unit as of June 30, 2014.

B. BASIS OF PRESENTATION

The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all of the activities of the City. The effect of inter-fund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**CITY OF LONE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. FUND ACCOUNTING

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental Fund Types

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balance of current financial resources. The City has presented the following major governmental funds:

General Fund: The General Fund is used to account for financial resources used for general operations. Any fund balances are considered resources available for current operations. All general tax revenues and other receipts that are not allocated by law or contractual agreement to other funds are accounted for in this fund.

Debt Service Fund: The City collects property taxes to retire debt issued for City construction projects. The debt service fund accounts for these collections and subsequent payments of principal and interest on the issued debt. The City transfers funds collected to the water and sewer fund to assist the fund in retiring debt issued to complete water and sewer system upgrades and improvements.

Proprietary Fund Types

Proprietary Fund: Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary funds:

Enterprise Funds: Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises; where the intent of the governing body is that costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City's water and wastewater utility fund operates as an enterprise fund.

CITY OF LONE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. FUND ACCOUNTING (continued)

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services, if any which are accrued. Expenses are recognized at the time the liability is incurred.

The Governmental Fund Types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financial sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

This is the traditional basis of accounting for governmental funds and also is the manner in which funds are normally budgeted. This presentation is deemed most appropriate to: 1.) demonstrate legal and covenant compliance, 2.) demonstrate the sources and uses of liquid resources, and 3.) demonstrate how the City's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

CITY OF LONE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING (continued)

The modified accrual basis of accounting is used for the Governmental Fund Types and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, (i.e., both measurable and available), and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Property and sales taxes are susceptible to accrual.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant.

The proprietary fund type is accounted for on a flow of economic resources measurement focus and utilizes the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable, and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet.

The proprietary funds financial statements are prepared on the same basis (economic resources measurement focus and accrual basis of accounting) as the government-wide financial statements. Therefore, most lines for the total enterprise funds on proprietary funds financial statements will directly reconcile to the business-type activities column on the government-wide financial statements, certain interfund activities between these funds are eliminated in the consolidation for the government-wide financial statements, but are included in the fund columns in the proprietary financial statements.

E. BUDGET

The City is required by law to adopt an annual budget on or before the first day of its fiscal year. The general fund has a legally adopted budget. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to various city departments. Throughout the fiscal year, the budget was amended to add supplementary appropriations. All amendments to the budget which change the total appropriation amount for any department require City Council approval and all increases in appropriations must be accompanied by an increase in revenue sources of a like amount to maintain a balanced budget.

GASB Statement No. 34 requires that budgetary comparison statements for the general fund be presented as required supplementary information. These statements must display original budget, amended budget, and actual results (on a budgetary basis).

CITY OF LONE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. ENCUMBRANCES

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at June 30, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. The City had no outstanding encumbrances at year end.

G. CASH EQUIVALENTS

For the purpose of the Statement of Cash Flows, highly liquid investments with a maturity of three months or less and all certificates of deposit regardless of term are considered to be cash equivalents.

H. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. RECENT ACCOUNTING PRONOUNCEMENT – GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT 34 – “BASIC FINANCIAL STATEMENTS AND MANAGEMENT DISCUSSION AND ANALYSIS – FOR STATE AND LOCAL GOVERNMENTS” :

With the fiscal year ending September 30, 2004, the City implemented the provisions of Governmental Accounting Standards Board Statement 34, which has substantially changed its method of reporting. The adoption did not result in the restatement of fund balances.

J. FUND BALANCES

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Fund balance is reported as non-spendable when the resources cannot be spent because they are either in a non-spendable form or legally contractually required to be maintained intact. Resources in non-spendable form include inventories and prepaid assets.

Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.

**CITY OF LONE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. FUND BALANCES (continued)

The city's highest decision-making level of authority rests with the City Council. Fund balance is reported as committed when the Council passes a resolution that places specified constraints on how resources may be used. The Council can modify or rescind a commitment of resources through the passage of a new resolution.

Resources that are constrained by the government's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Council committees (such as budget or finance), or officials to which the Council has delegated authority.

Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the City for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the City's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

With the fiscal year ending June 30, 2004, the City implemented the provisions of Governmental Accounting Standards Board Statement 34, which has substantially changed its method of reporting. The adoption did not result in the restatement of fund balances.

NOTE 2 – PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien is attached to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due.

Property taxes are prorated between maintenance and debt service, if any, based on rates adopted for the year of the levy. Allowance for uncollectible amounts within the general fund is based upon historical experience in collecting property taxes. Section 33.05 of the property tax code requires the tax collector for the City to cancel and remove from the delinquent tax rolls a real property that has been delinquent more than 20 years or a tax on a personal property that has been delinquent for more than 10 years. Delinquent taxes meeting these criteria may not be cancelled if litigation concerning these taxes is pending. The City levied taxes on property within the City at \$0.360425 to fund maintenance and operations and \$ 0.123772 for payment of principal and interest on debt obligations.

CITY OF LONE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 – DEPOSITS AND INVESTMENTS

The City's funds are deposited and invested in a local bank. The bank deposits for safekeeping and trust approved pledged securities in an amount sufficient to protect City funds on a day – by – day basis. The pledge of approved securities is waved only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At June 30, 2014, the City's deposits totaled \$224,145. The bank balance for these deposits at June 30, 2014 totaled \$237,556.

The City's cash deposits at June 30, 2014, and during the year then ended were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

The Public Funds Investment Act requires an annual audit of investment practices. Audit procedures in this area as part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports the establishment of appropriate policies and the City adhered to requirements of the Act. The City invests only in certificates of deposit. The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

Category 1 - Deposits which are insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 - Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 - Deposits which are not collateralized or insured.

Based on these three levels of risk, the City's investments at June 30, 2014 are classified as follows:

	<u>Category1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total Deposits</u>
Cash Deposits	\$ -	\$ 237,556	\$ -	\$ 237,556

NOTE 4 – DELINQUENT TAXES RECEIVABLE

Allowances for uncollectible tax receivables are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

CITY OF LONE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 5 – CAPITAL ASSETS

Under GASB Statement No. 34, all capital assets owned by governmental activities are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements. Governments with total annual revenues of less than \$10 million, or *Phase 3* Governments, are not required under GASB Statement No. 34 to report the general infrastructure assets acquired prior to July 1, 2003, in the basic financial statements. Accordingly, the City has not reported any infrastructure assets acquired prior to that date. General infrastructure assets are long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets and that normally are stationary in nature, including roads, bridges, drainage systems, and street lighting systems.

Capital assets, including general infrastructure assets, are defined as assets with an initial individual cost of more than \$5,000 and an estimated useful life greater than one year. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Major outlays for capital assets and improvements are capitalized as the projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Building, Structures, and Improvements	20-50 years
Equipment including vehicles	5-20 years
Infrastructure	15-100 years

Business-type Activities:

Asset Category	Balance 6/30/13	Additions	Deletions	Balance 6/30/14
Land, Buildings, and Improvements	\$ 385,192	\$ -	\$ -	\$385,192
Furniture, Vehicles, and Equipment	87,560	-	-	87,560
Fixed Asset Plant Investment	1,825,763	-	-	1,825,763
Total Property, Plant and Equipment	2,298,515	-	-	2,298,515
Less: Accumulated Depreciation	(1,299,395)	(104,745)	-	(1,404,140)
Net Property, Plant and Equipment	<u>\$ 999,120</u>	<u>\$ (104,745)</u>	<u>\$ -</u>	<u>\$ 894,375</u>

Depreciation expense for 2014 was \$104,746 for business-type activities.

CITY OF LONE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 5 – CAPITAL ASSETS (continued)

Governmental Fund Assets

The City has historically not recorded general fixed assets on its financial statements. An inventory of assets as of June 30, 2003 was taken and recorded at historical cost (if available) or estimated fair value. The composition of fixed assets is as follows:

Asset Category	Balance 6/30/13	Additions	Deletions	Balance 6/30/14
Land	\$ 7,010	\$ -	\$ -	\$ 7,010
Buildings and Improvements	86,364	-	-	86,364
Infrastructure	168,132	-	-	168,132
Vehicles	103,249	23,871	-	127,120
Equipment	30,740	40,000	-	70,740
Total Assets	395,495	63,871	-	459,366
Accumulated Depreciation	(307,586)	(23,325)	-	(330,911)
	<u>\$ 87,909</u>	<u>\$ 40,546</u>	<u>\$ -</u>	<u>\$ 128,455</u>

Depreciation was charged to governmental activities in the government-wide financial statements.

NOTE 6 - CHANGES IN LONG-TERM DEBT

Business-type Activities:

A summary of changes in long-term debt for the year ended June 30, 2014 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 7/01/2013	Issued	Retired	Amounts Outstanding 06/30/2014
<u>Combination Tax and Revenue Refunding Bonds</u>						
2006	5.35%	200,000	115,500	-	16,500	99,000
<u>Notes Payable</u>						
American National Bank	6.00%	18,572	12,250	-	12,250	-
		<u>218,572</u>	<u>127,750</u>	<u>-</u>	<u>28,750</u>	<u>\$ 99,000</u>

Future requirements for bonded indebtedness are as follows:

Year Ended June 30	2006 Issue		Truck Loan		Total Requirements
	Principal	Interest	Principal	Interest	
2015	\$ 17,000	\$ 4,838	\$ -	-	\$ 21,838
2016	19,000	3,876	-	-	22,876
2017	20,500	2,820	-	-	23,320
2018	21,000	1,711	-	-	22,711
2019	21,500	575	-	-	22,075
	<u>\$ 99,000</u>	<u>\$ 13,820</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 112,820</u>

CITY OF LONE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 6 - CHANGES IN LONG-TERM DEBT (continued)

Governmental Funds

A summary of changes in long-term debt for the year ended June 30, 2014 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 7/01/2013	Issued	Retired	Amounts Outstanding 06/30/2014
Kansas State Bank of Manhattan						
Vehicle Purchase	3.60%	16,560	16,560	-	5,326	11,234
Equipment	3.95%	40,000	-	40,000	3,655	36,345
The American National Bank of Texas						
Vehicle	4.90%	9,900	-	9,900	2,104	7,796
Vehicle	4.90%	13,971	-	13,971	2,694	11,277
		<u>\$ 80,431</u>	<u>\$ 16,560</u>	<u>\$ 63,871</u>	<u>\$ 13,779</u>	<u>\$ 66,652</u>

Future requirements for notes payable are as follows:

Year Ended	Notes Payable		Total
June 30, 2014	Principal	Interest	Requirements
2015	\$ 18,833	2,510	21,343
2016	19,624	1,719	21,343
2017	14,528	894	15,422
2018	9,302	360	9,662
2019	4,365	51	4,416
	<u>\$ 66,652</u>	<u>\$ 5,534</u>	<u>\$ 72,186</u>

After reviewing the bond covenants, City management believes the City is in compliance with the requirements stated in the bond ordinances. In accordance with the bond requirements, the following insurance policies were in force at June 30, 2014, relating to the water and sewer assets:

INSURER	PROPERTY COVERED	AMOUNT OF COVERAGE	EXPIRATION DATE
Texas Municipal League	Real and Personal Property	\$ 1,302,470	10/1/2014
Texas Municipal League	Machinery & Equipment	\$ 172,000	10/1/2014
Texas Municipal League	General Liability	\$ 2,000,000	10/1/2014
Texas Municipal League	Errors and Omissions	\$ 2,000,000	10/1/2014
Texas Municipal League	Law Enforcement	\$ 2,000,000	10/1/2014
Texas Municipal League	Automobile	\$ 510,000	10/1/2014

CITY OF LONE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 – ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

At June 30, 2014, the City had no material liability for any accrued sick leave or vacation leave.

NOTE 8 – HEALTH CARE COVERAGE

During the year, ended June 30, 2014, employees of the City were covered by a health insurance plan (Plan). The City contributes up to \$350 of the employee's premiums. All contributions were paid to a preferred provider organization. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the Safe Harbor Insurance Group is renewable July 1, 2014, and terms of coverage and contribution costs are included in the contractual provisions.

NOTE 9– COMMITMENTS AND CONTINGENCIES

The City participates in Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

NOTE 10– RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2014 the City obtained general liability, property and casualty and worker's compensation insurance through the Texas Municipal League Intergovernmental Risk Pool. Coverage's have not significantly decreased and settlements have not exceeded insurance during the past three years.

NOTE 11– RELATED PARTY TRANSACTIONS

The City conducts business with companies that are owned or operated by a member of the City Council or by a spouse of the member of the City Council. These transactions are carried out using market rates for the products and services purchased by the City.

NOTE 12– SUBSEQUENT EVENTS

The City's management has evaluated subsequent events through December 31, 2014, the date which the financial statements were available for issue.

**CITY OF LONE OAK, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2014**

BUDGET				
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Difference</u>
Revenues:				
Property Taxes including P & I	\$ 105,000	\$ 105,000	\$ 94,879	\$ (10,121)
Sales Tax Collected	60,000	60,000	67,522	7,522
Municipal Court	351,200	351,200	463,197	111,997
Franchise Fees	25,000	21,000	21,279	279
Charges for Services	2,000	1,000	1,786	786
Police Department	17,000	17,000	10,559	(6,441)
Miscellaneous	656	656	74	(582)
Total Revenues	<u>\$ 560,856</u>	<u>\$ 555,856</u>	<u>\$ 659,296</u>	<u>\$ 103,440</u>
Expenditures:				
Current				
General Government	\$ 146,767	\$ 147,716	\$ 136,932	\$ 10,784
Public Safety				
Police	195,739	212,140	247,731	(35,591)
Municipal Court	167,950	176,000	217,572	(41,572)
Public Works/Road Maintenance	50,400	20,000	9,661	10,339
Total Expenditures	<u>\$ 560,856</u>	<u>\$ 555,856</u>	<u>\$ 611,896</u>	<u>(56,040)</u>
Excess (Deficiency) of Revenues				
(Under) Expenditures	\$ -	\$ -	\$ 47,400	\$ 47,400
Other Revenues and Financing Sources (uses)				
Intergovernmental Transfers	-	-	-	
Operating Transfers In/(Out)	-	-	(28,718)	
Loan Proceeds	-	-	63,871	
Total Other Financing Sources (uses)	<u>-</u>	<u>-</u>	<u>35,153</u>	
Excess of Revenue and Other Financing sources				
over (under) expenditures and other financing use			82,553	
Fund Balance/Equity, July 1			83,497	
Fund Balance/Equity, June 30			<u><u>\$ 166,050</u></u>	

CITY OF LONE OAK, TEXAS
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
City of Lone Oak, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lone Oak, Texas, as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise City of Lone Oak, Texas' basic financial statements and have issued our report thereon dated December 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Lone Oak, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lone Oak's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Lone Oak, Texas' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct the misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. **(Significant Deficiency 01-14)**

CITY OF LONE OAK
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lone Oak, Texas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Lone Oak's Response to Findings

City of Lone Oak's response to findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Lone Oak's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's control and compliance. Accordingly, this communication is not suitable for any other purpose.



ACKER & COMPANY
Certified Public Accountants, PC
December 31, 2014

CITY OF LONE OAK, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an qualified opinion on the financial statements of the City of Lone Oak, Texas.
2. One significant deficiency disclosed during the audit of financial statements is reported in the **Independent Auditor's Report on Internal Control Over Financial reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of the City of Lone Oak, Texas were disclosed during the audit.

FINDINGS-FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCY (01-14)

Condition: Effective internal control over financial reporting involves identification and analysis of the risk of material misstatements to the City's audited financial statements. Controls should also determine how those identified risks should be managed. As with most cities this size, management has not developed policies and procedures to compute, review, and record depreciation and has not identified risks to preparation of reliable financial statements or designed effective controls over the preparation of the financial statements to prevent or detect material misstatements. Management instead relies on its auditors to record depreciation and to prepare the City's financial statement and footnote disclosures. As a result of these policies and procedures not being developed, material adjustments were necessary to record depreciation expense and the auditors, not city management, prepared the City's financial statements and footnote disclosures. The auditors cannot be a part of the City's internal controls over financial reporting,

Criteria: Internal controls should be in place to identify the risks to recording depreciation expense and to the preparation of financial statements to prevent or detect material misstatements, including footnote disclosures.

Cause: There are no procedures in place to identify the risks to recording depreciation expense or the preparation of financial statements to prevent or detect material misstatements, including footnote disclosures.

Effect: Because of the failure to identify the risks to recording depreciation expense and the preparation of financial statements to prevent or detect material misstatements, including footnote disclosures, the financial statements contain material misstatements throughout the year in accordance with generally accepted accounting principles.

Recommendation: Controls should be implemented to identify and analyze the risk of material misstatements to the City's financial statements to prevent or detect material misstatements, including footnote disclosures.

Views of Responsible Officials and Planned Corrective Actions: The City agrees with the findings and recommendations of the auditors but believes it is more efficient and effective to continue to rely on the auditor's to perform these procedures due to the size of the City and the limit of City resources.